

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Detroit Transportation Corporation	County Wayne
Fiscal Year End June 30, 2006	Opinion Date January 22, 2007	Date Audit Report Submitted to State February 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

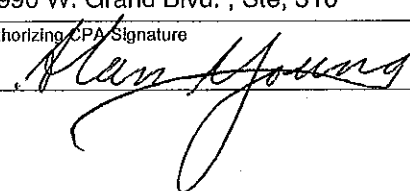
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Alan C. Young & Associates, PC		Telephone Number (313) 873-7500	
Street Address 2990 W. Grand Blvd., Ste. 310		City Detroit	State MI
		Zip 48202	
Authorizing CPA Signature 		Printed Name Alan C. Young	License Number 1101010844

**DETROIT TRANSPORTATION CORPORATION
FINANCIAL STATEMENTS &
OMB CIRCULAR A-133 REPORT
YEAR ENDED JUNE 30, 2006**

DETROIT TRANSPORTATION CORPORATION

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**Alan C.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Detroit Transportation Corporation
Detroit, Michigan

We have audited the accompanying financial statements of the Detroit Transportation Corporation (DTC), a component unit of the City of Detroit, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of DTC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the DTC as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2007 on our consideration of DTC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**Independent Auditors' Report
(Continued)**

The Management's Discussion and Analysis and the pension information are not a required part of the basic financial statements but are required supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements. The accompanying other supplemental schedules listed in the table of contents and the schedule of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Alan C. Young; Assoc.

January 22, 2007

**MANAGEMENT DISCUSSION
&
ANALYSIS (MD&A)**

**DETROIT TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2006**

The management of Detroit Transportation Corporation presents this narrative overview and analysis of the financial activities of the DTC for the fiscal year ended June 30, 2006. This discussion and analysis provides the management's insights to assist the readers to identify significant financial issues and also the changes in the financial position. We encourage readers to consider this information in conjunction with the financial statements as a whole.

Questions concerning any of the information provided in this report or request for additional information should be addressed to the Chief Financial Officer, Detroit Transportation Corporation, 1420 Washington Blvd, 3rd Floor, Detroit MI 48226, Telephone # (313) 224-2160.

INTRODUCTION

The financial statements include the Statement of Net Assets, Statement of Revenues, Expenditures and Changes in Fund Net Assets and Statement of Cash Flows. These statements are supported by the notes to the financial statements, Management Discussion & Analysis (MD&A), and Required Supplementary Information other than MD&A.

FINANCIAL HIGHLIGHTS

The assets of the Corporation exceeded its liabilities at June 30, 2006 by \$91.50 million (net assets)

The enterprise fund activities operating loss increased by \$1,740,744 or 28.0 % compared to prior year. The decrease in net assets was \$5,294,541 which showed a decrease of 5.5 % over the prior year.

Per the statements of net assets, the Corporation has \$6,524,883 of its net assets restricted for beam crack repairs which are currently invested in Comerica Bank and recorded at its fair value as of June 30, 2006, with \$3 million being the estimated cost of its repairs.

The largest portion of the Corporation's net assets is reflected in its investment in capital assets (land, artwork, transportation equipment, office equipment, etc.).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as information regarding the DTC's basic financial statements. Since the Corporation is comprised of a single enterprise fund, no fund level financial statements are shown.

Basic Financial Statements – These are designed to provide the readers with a broad overview of the DTC's finances, in a manner similar to a private sector business. The statement of net assets presents the information about DTC's assets and liabilities and the difference between the two is reported as net assets. The statement of revenues, expenses and changes in fund net assets presents the revenues earned and expenses incurred during the year on an accrual basis.

DETROIT TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2006
(Continued)

Notes to Financial Statements – The notes provide additional information which is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the DTC's net revenues, and budgetary highlights of revenues and expenditures as well as trend data on infrastructure condition.

Statement of Net Assets – Presented below are the condensed net assets (the detailed financial statement is provided on pages 7 and 8):

Assets:	2006	2005
Current Assets	\$13,354,215	\$15,381,080
Restricted Assets	9,524,883	9,800,637
Capital Assets Net of Accumulated Depreciation	73,723,497	78,413,932
Total Assets	96,602,595	103,595,649
Liabilities:		
Current Liabilities	1,741,819	2,718,667
Current Liabilities Payable Out of Restricted Assets	3,000,000	3,000,000
Accrued Compensated Absences	363,311	208,059
Unearned Revenue	0	876,917
Total Liabilities	5,105,130	6,803,643
Net Assets:		
Unrestricted	11,249,085	11,577,437
Invested in Capital Assets, Net of Related Debt	73,723,497	78,413,932
Temporarily Restricted for Beam Repairs	6,524,883	6,800,637
Total Net Assets	\$91,497,465	\$96,792,006

Analysis of Net Assets – As noted earlier, net assets may serve as a useful indicator of a government's financial position. The DTC's assets exceeded liabilities by \$91.50 million at the close of fiscal 2006.

DETROIT TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2006
(Continued)

Statement of Activities – Presented below is the condensed activities for the years ended June 30, 2006 and 2005 (the detailed financial statement is presented on page 9):

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Charges for Sales and Services: Ticket Sales	\$991,814	\$443,669
Intergovernmental - City Subsidy	7,896,198	8,744,768
Intergovernmental - State of Michigan	3,858,853	2,950,182
Total Operating Revenues	<u>12,746,865</u>	<u>12,138,619</u>
Operating Expenses:		
Administration	(12,480,426)	(10,473,830)
Depreciation	(8,185,928)	(7,843,534)
Total Operating Expenses	<u>(20,666,354)</u>	<u>(18,317,364)</u>
Operating Loss	<u>(7,919,489)</u>	<u>(6,178,745)</u>
Non Operating Revenues:		
Interest Income	331,326	235,722
Grant, Bond and Other Revenues	2,789,699	2,283,886
Unrealized Gain/Loss	(496,077)	1,296,422
Net Non Operating Revenues	<u>2,624,948</u>	<u>3,816,030</u>
Change in Net Assets	(5,294,541)	(2,362,715)
Net Assets, Beginning of Year	<u>96,792,006</u>	<u>99,154,721</u>
Net Assets, End of Year	<u><u>\$91,497,465</u></u>	<u><u>\$96,792,006</u></u>

Analysis of Statement of Activities – The DTC's net assets overall decreased by \$5.29 million during the current fiscal year.

DETROIT TRANSPORTATION CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2006
(Continued)

BUDGETARY HIGHLIGHTS

	BUDGETED AMOUNTS			VARIANCE
	ORIGINAL	FINAL	ACTUAL	Positive/ (Negative)
Revenues:				
Ticket & Token Sales	\$790,000	\$790,000	\$991,814	\$201,814
Homeland Security Grant	0	0	8,624	8,624
FTA Grant	600,000	600,000	2,148,291	1,548,291
Unrealized Gain/(Loss) & Investment Income	0	0	(496,077)	(496,077)
Misc. Revenue & Rental Income	129,000	129,000	359,970	230,970
Advertising Revenue	215,000	215,000	417,953	202,953
City Bond Revenue	10,000,000	10,000,000	186,187	(9,813,813)
City Subsidy	6,990,987	6,990,987	7,896,198	905,211
State Operating Assistance	3,000,000	3,000,000	3,858,853	858,853
Total Revenues	21,724,987	21,724,987	15,371,813	(6,353,174)
Expenditures:				
Cost of Sales & Services				
Administration	11,906,360	11,906,360	12,480,426	(574,066)
Depreciation	8,234,668	8,234,668	8,185,928	48,740
Total Expenditures	\$20,141,028	\$20,141,028	\$20,666,354	(\$525,326)

During the year, actual ticket and token sales exceeded the budgetary estimates by \$201,814 primarily due to increase in ridership for the superbowl as well as increased attendance at Detroit Tiger games. Federal Funding was \$1,556,915 greater than the budgeted amount due to utilization of two previously approved capital grants that were unutilized in prior years. During the year DTC suffered an unrealized loss of \$496,077 on investments due to poor market conditions. For 2005-2006 \$10,000,000 was budgeted as grant revenue from city to overhaul the train cars. DTC was unable to get any bids for the required project in current year and the project will be pursued in 2006-2007. The City Subsidy amount was \$905,211 above the budgeted amount due to realization of previous years unrealized revenues. State operating assistance was \$858,853 above the budgeted amount due to the state operating formula based on actual year end operating expenses.

CAPITAL ASSETS

The DTC's investment in capital assets amounts to \$73,723,497, net of accumulated depreciation as of June 30, 2006, a decrease of 5.98% compared to prior year. Capital assets include land, transportation equipment, train control and office equipment, etc. Depreciation was provided on all depreciable capital assets using the straight-line method. Additional information about capital assets can be found in Note 2-B to the basic financial statements.

DETROIT TRANSPORTATION CORPORATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

ASSETS

Current Assets:

Cash & Cash Equivalents (Notes 1 & 2)	\$1,331,271
Investments (Note 2)	4,004,967
Accounts Receivable	219,945
Inter-Governmental Receivable	3,211,254
Inventories	3,967,614
Prepaid Expenses	619,164
Total Current Assets	<u>13,354,215</u>

Non Current Assets (Note 2):

Restricted Investments	9,524,883
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Capital Assets (Note 2):

Land	5,122,237
Artwork	1,986,000
Transportation Equipment & Structures	180,378,917
Other Equipment	4,443,281
Train Control Upgrading	6,606,949
Power Rail Heat Tape	1,175,059
Less: Accumulated Depreciation	<u>(125,988,946)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>73,723,497</u>

Total Non Current Assets	<u>83,248,380</u>
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Total Assets	<u><u>\$96,602,595</u></u>
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The accompanying notes are an integral part of these financial statements.

DETROIT TRANSPORTATION CORPORATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006
(Continued)

LIABILITIES AND NET ASSETS

Current Liabilities Payable from Current Assets:

Accounts & Contract Payable	\$1,389,053
Accrued Salaries & Wages	330,061
Accrued Pension Payable	22,705
Total Current Liabilities	<u>1,741,819</u>

Current Liabilities Payable from Restricted Assets:

Beam Repair (Note 2)	3,000,000
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Long-Term Liabilities:

Accrued Compensated Absences	363,311
Total Liabilities	<u>5,105,130</u>

NET ASSETS

Unrestricted	11,249,085
Invested in Capital Assets, Net of Related Debt (Accumulated Depreciation of \$125,988,946)	73,723,497
Temporarily Restricted for Beam Repair	6,524,883
Total Net Assets	<u>91,497,465</u>

Total Liabilities and Net Assets	<u><u>\$96,602,595</u></u>
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The accompanying notes are an integral part of these financial statements.

DETROIT TRANSPORTATION CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Unrestricted Assets	Temporarily Restricted Assets	Total
Operating Revenues:			
State			
Intergovernmental - State of Michigan	\$3,858,853	\$0	\$3,858,853
Local			
Intergovernmental - City Subsidy	7,896,198	0	7,896,198
Charges for Sales and Services: Ticket Sales	991,814	0	991,814
Total Operating Revenues	<u>12,746,865</u>	<u>0</u>	<u>12,746,865</u>
Costs of Sales and Services:			
Administration	12,480,426	0	12,480,426
Depreciation	8,185,928	0	8,185,928
Total Operating Expenses	<u>20,666,354</u>	<u>0</u>	<u>20,666,354</u>
Operating Loss	(7,919,489)	0	(7,919,489)
Non-Operating Revenues (Expenses):			
Federal			
FTA Grant Revenue	2,148,291	0	2,148,291
Homeland Security Grant	8,624	0	8,624
Local			
City Bond Revenue	186,187	0	186,187
Interest Income	122,442	208,884	331,326
Rental Income	21,300	0	21,300
Misc. Revenue	14,029	0	14,029
Unrealized Gain on Investment	(11,439)	(484,638)	(496,077)
Advertising Income	417,953	0	417,953
Gain / Loss on Sale of Assets	(6,685)	0	(6,685)
Total Nonoperating Revenue (Expenses)	<u>2,900,702</u>	<u>(275,754)</u>	<u>2,624,948</u>
Change in Net Assets	(5,018,787)	(275,754)	(5,294,541)
Net Assets - Beginning of Year	89,991,369	6,800,637	96,792,006
Net Assets - End of Year	<u>\$84,972,582</u>	<u>\$6,524,883</u>	<u>\$91,497,465</u>

The accompanying notes are an integral part of these financial statements.

DETROIT TRANSPORTATION CORPORATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATIONS

Receipts from Customers	\$872,756
Cash Receipts from State of Michigan	6,461,124
Cash Receipts from City of Detroit	6,675,548
Cash Receipts from Federal	1,900,853
Payments to Suppliers	(7,122,650)
Payments to Employees	(6,531,520)
Payment of Accrued Pension	(345,381)
Accrued Compensated Absences	155,252
Other Operating Cash Receipts (Payments)	150,226
Net Cash Provided by (Used in) Operating Activities	<u>2,216,209</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(3,502,178)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(3,502,178)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Restricted Investment, Net	275,755
Investment, Net	1,488,498
Unrelaized Gain on Investment	(496,077)
Interest Received from Investment	331,326
Net Cash Provided by (Used in) Investing Activities	<u>1,599,502</u>

Net Increase (Decrease) in Cash and Cash Equivalents	313,533
Cash and Cash Equivalents, Beginning of Year	1,017,738
Cash and Cash Equivalents, End of Year	<u>\$1,331,271</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating Income (Loss)	(\$7,919,489)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities	
Depreciation and Amortization	8,185,928
Other Income	2,796,384
Change in Accounts Receivable	455,003
Change in Due from Inter-Governmental Receivables	939,173
Change in Prepaid Expenses	(53,860)
Change in Inventories	(488,417)
Change in Accounts & Contracts Payable	(521,993)
Change in Accrued Salaries Payable	(109,474)
Change in Accrued Pension Payable	(345,381)
Change in Accrued Compensated Absences	155,252
Change in Deferred Revenue	(876,917)
Total Adjustment	<u>10,135,698</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$2,216,209</u>

The accompanying notes are an integral part of these financial statements.

DETROIT TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Detroit Transportation Corporation (DTC) was incorporated in 1985 as a Michigan Public Body Corporate for the purpose of acquiring, owning, constructing, furnishing, equipping, completing, operating, improving, enlarging, and/or disposing of the Central Automated Transit Systems (CATS) in Detroit, Michigan. DTC acquired the CATS project from the Southeastern Michigan Transportation Authority (SEMTA) formerly, the Suburban Mobile Authority for Regional Transportation (SMART), on October 4, 1985. DTC, created by the City of Detroit pursuant to Act 7 of Public Acts of 1967, is a component unit of the City of Detroit and accounts its activity as per proprietary funds.

The CATS project, predominantly known as the Downtown People Mover (DPM), officially opened to the public on July 31, 1987. The DPM has automated rail cars traveling a 2.9-mile loop around Detroit's central business district. Effective November 18, 1988, DTC assumed responsibility to operate and maintain the People Mover System, a responsibility which had been performed by the primary contractor, Urban Transportation Development Corporation (UTDC), on a month-to-month basis until that date.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of twelve months or less from the date of acquisition. Investments are valued at their fair value plus accrued interest in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

Definition of Operating Activities

DTC considers operating revenues and expenses to be those that result from activities related to the operations of Detroit Transportation Corporation. Such operating revenue include the receipts generated from operating and maintaining the Downtown People Mover.

DETROIT TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006
(Continued)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows

For purposes of reporting cash flows, the Corporation considers "cash" as cash on deposit in financial institutions, including restricted assets.

Inventories

Inventories consist of spare parts and are valued primarily at cost.

2) ASSETS, LIABILITIES AND NET ASSETS

(A) Cash and Investments

Cash consists of checking accounts, money market accounts, and cash-on-hand. At June 30, 2006, the Corporation's bank accounts held approximately \$1,882,332 in excess of federal insurance coverages. It is the opinion of management that the solvency of the referenced financial institutions is not of particular concern at this time.

DTC had adopted the City's official investment policy, which is in accordance with Michigan Public Act 20 of 1943, as amended, and Michigan Public Act 94 of 1997, as amended. DTC deposits funds with banks and invests in U.S. Government obligations as authorized by the aforementioned acts.

In accordance with Government Accounting Standards Board's Statement No. 3, investments are categorized to indicate the level of risk assumed by the Corporation. Category 1 includes investments, which are insured or registered, or held by the Corporation, or held by an agent in the Corporation's name. Category 2 includes investments which are uninsured and unregistered, held by an agent in the Corporation's name. Category 3 includes investments which are uninsured and unregistered, held by an agent but not in the Corporation's name.

Custodial Credit Risk of Bank Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, DTC deposits may not be returned to it. At year end, DTC deposit balance of \$1,882,332 was uninsured and uncollateralized. DTC evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The custodial risk for Investments will be minimized by limiting investments to the types of securities allowed by City's investment policy and by pre-qualifying the financial institutions.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. DTC's policy minimizes interest rate risk by investing funds primarily in Fixed Income, Treasuries and Mutual Funds.

DETROIT TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006
(Continued)

2) ASSETS, LIABILITIES AND NET ASSETS

(A) Cash and Investments – (Continued)

Credit Risk

At year end, the credit quality ratings of securities are as follows:

		Cost		Fair Value	
	Rating	Unrestricted	Restricted	Unrestricted	Restricted
Rating Organization : Standards & Poor's Rating and Moody's Rating					
Cash & Cash Equivalents	None	4,893,102	181,912	4,893,102	181,912
Fixed Income					
Treasury Inflation Index Notes					
US Treasury Inflation Index	AAA/Aaa	58,129	120,788	58,014	126,853
Treasuries					
US Treasury Bond	AAA/AAA	0	283,828	0	293,297
US Treasury Note	AAA/Aaa	135,307	203,703	132,281	193,250
U.S. Agencies					
Federal Home Loan Bank	Aaa/AAA	0	942,349	0	1,033,078
Federal Home Loan Mortgage	Aaa/AAA	86,342	243,396	80,841	228,625
Federal National Mortgage	Aaa/AAA	30,000	144,904	29,597	144,000
Federal Natl. Mtg. Assn.	Aaa/AAA	139,081	184,316	128,187	185,173
Financing Corp.	Aaa/NR	15,589	214,429	14,216	199,019
Ref Corp. Strip Principal	Aaa/AAA	0	349,680	0	1,537,968
Resolution Fdg. Corp. 4/1	Aaa/AAA	0	49,480	0	282,582
Resolution Fdg. Corp. 1/1	Aaa/AAA	0	343,637	0	1,595,297
Resolution Fdg. Corp. Strips	Aaa/AAA	0	306,347	0	1,957,593
Equities					
Mutual Funds	Unrated	0	1,493,231	0	1,566,236
Total		\$5,357,550	\$5,062,000	\$5,336,238	\$9,524,883

Concentration of Credit Risk

DTC's policy minimizes concentration of credit risk by; and, requiring diversification of the investment portfolio so that the impact if potential losses from any one type of security will be minimized.

Foreign Currency Risk

Foreign Currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S dollar value, as a result of changes in foreign currency exchange rates. DTC's policy prohibit investment in foreign currency.

DETROIT TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006
(Continued)

2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

(B) Property, Plant & Equipment & Depreciation

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Artwork	25 Years
Transportation Equipment & Structures	17-30 Years
Other Equipment	5-7 Years
Train Control Upgrading	17 Years
Power Rail Heat Tape	10 Years

Expenditures for maintenance and repairs are charged to expense. Renewals or betterments, which extend the life or increase the value of properties, are capitalized.

DTC's Capital asset activity during the year was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital Assets not being Depreciated:				
Land	\$5,122,237	\$0	\$0	\$5,122,237
				0
Capital Assets being Depreciated:				
Artwork	1,986,000			1,986,000
Transportation Equipment & Structure	195,941,672	2,343,884	17,906,639	180,378,917
Other Equipment	3,940,881	790,288	287,888	4,443,281
Train Control Upgrading	6,238,539	368,410	0	6,606,949
Power Rail Heat tape	1,175,059	0	0	1,175,059
Total Assets being Depreciated	209,282,151	3,502,582	18,194,527	194,590,206
Total Capital Assets	214,404,388	3,502,582	18,194,527	199,712,443
Accumulated Depreciation:				
Artwork	1,112,160	79,440	0	1,191,600
Transportation Equipment & Structure	131,577,609	7,116,779	17,906,639	120,787,749
Other Equipment	2,895,051	496,930	280,799	3,111,182
Train Control Upgrading	293,662	375,274	0	668,936
Power Rail Heat tape	111,973	117,506	0	229,479
Subtotal	135,990,455	8,185,929	18,187,438	125,988,946
Net Capital Assets being Depreciated	73,291,696	(4,683,347)	7,089	68,601,260
Net Capital Assets	\$78,413,933	(\$4,683,347)	\$7,089	\$73,723,497

DETROIT TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006
(Continued)

2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

(C) Receivables

Receivables as of year end are as follows:

Inter-Governmental Receivables	\$3,211,254
Other Receivables	219,945

(D) City of Detroit Subsidy

The ability of DTC to continue operations at current levels is dependent upon DTC receiving a subsidy from the City of Detroit (the City) for its cash flow requirements in excess of operating revenues. Realization of the carrying value of assets of DTC is dependent upon the success of future operations or the receipt of such subsidies. The subsidy from the City for the year ended June 30, 2006 amounted to \$7,896,198.

(E) State Operating Assistance Grant

The reimbursements are initially calculated based on budgeted expenses and then recalculated based on reconciled expenses. The total state operating assistance grant for the year ending June 30, 2006 amounted to \$ 3,858,853.

(F) Deferred Compensation Plan

Detroit Transportation Corporation established a plan to permit its employees to defer a portion of their salary for the purpose of providing either retirement benefits or death benefits in the event of death prior to retirement. The Plan was established in accordance with Internal Revenue Code Section 457.

In accordance with GASB No. 32, the deferred compensation plan assets pertaining to the DTC's plan are no longer included in the financial statements.

(G) Inventories

Cost of Inventories is recorded at the lower of cost or market and expensed when used.

(H) Beam Crack Liability

Inspections of the people mover system (the System) at the time of completion revealed that structural defects exist that have resulted in, and may continue to result in, cracks in the beams supporting the System's Guideway. These structural defects were determined to be the responsibility of UTDC. The total cost of making necessary repairs was estimated at a present value of \$3,000,000 and will be made at various times over the life of the System.

DTC obtained a settlement with UTDC amounting to \$3,000,000, and DTC assumed responsibility for all beam crack repairs. Such amount was invested and the fair value of the investments at June 30, 2006, net of the cost of repairs, is reflected as a restricted asset and liability in the accompanying financial statements.

Therefore, DTC has recorded \$3,000,000 as current liabilities, which are payable from the restricted assets and any realized, or unrealized gain from loss from these investments is reflected in the net assets – restricted for beam repair.

DETROIT TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006
(Continued)

2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

(I) Related Party Transaction

DTC reported expenses for utilities and other services provided by the city totaling \$61,603 and \$63,272 for fiscal years 2006 and 2005, respectively.

(J) Defined Benefit Pension Plan

Plan Description

DTC contributes to the Detroit Transportation Corporation Employees' Retirement Plan (the Plan), which was established on July 1, 1988. DTC's payroll for employees covered by the Plan for the years ended June 30, 2006 and 2005 was \$4,584,835 and \$4,084,248, respectively, which was also the total payroll. DTC employees are not required to contribute to the Plan.

All DTC employees who have attained the age of 21 are eligible for the Plan. Benefits vest after five years of service. DTC employees who retire at or after the age of 62 (normal retirement) are entitled to an annual retirement benefit, payable monthly for life. The retirement benefits is an amount equal to employees final average earnings, which shall be 1.5% for the employees years of credited service from year one to year ten, 1.7% for credited service for year eleven to twenty one and 1.9% for the credited service for year twenty one and thereafter. Final average annual earnings shall be retroactive to June 30, 2001 and shall be applicable only to active employees of DTC as of June 30, 2001.

DTC employees who retire at or after the age of 55 with five or more years of vesting service (early retirement) are entitled to the normal retirement benefit reduced by 0.6% for each month that early retirement precedes normal retirement. The Plan also provides death and disability benefits.

Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7% per year, net of investment expenses, (b) projected salary increases of 4% per year, (c) heavy rates of termination, and (d) moderate rates of disablement.

Contribution Required and Contribution Made

DTC contributes to the Plan based upon actuarially determined contribution requirements. The contribution rate for normal cost is determined using the projected unit credit cost method. The significant actuarial assumptions used to compute the pension benefit obligation are described above.

The required contributions to the Plan were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2005 and 2004. The minimum required contribution for 2006 and 2005 consisted of normal costs of \$270,313 and \$344,965, respectively, (approximately 9.8% and 11.4%, respectively, of current covered payroll per actuary report) plus interest on the normal costs.

DETROIT TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006
(Continued)

2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

(K) Commitments & Contingencies

DTC is involved in certain legal actions and claims arising in the ordinary course of its business. It is the opinion of management that such litigation and claims will be resolved without material effect on the financial position of DTC.

DTC is self-insured for up to \$5 million under their general liability insurance policy. As of June 30, 2006 the Corporation had approximately \$532,726 on deposit in order to fund any future claims made on this policy. These amounts are included in the investments account in the accompanying balance sheets.

(L) Net Assets

Business type financial statements use net asset presentation. Net assets are categorized as follows:

1. Investment in Capital Assets (Net of Related Debt) – consists of capital assets net of accumulated depreciation. This amount would further reduce by the portion of debt attributable to those assets.
2. Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by DTC. The donors of these assets permit DTC to use all or part of the income earned on related investments for general or specific purposes.
3. Temporarily Restricted – Net assets subject to donor-imposed stipulations that can be met either by actions of DTC and/or the passage of time.
4. Unrestricted Net Assets – consists of unrestricted net assets which the Corporation's management can use for various purposes.

(M) Compensated Absences

The DTC records as a liability estimated vested vacation and sick pay in accordance with GASB Statement No. 16, Accounting for Compensated Absences. Unused vacation and sick pay accumulates until termination of employment.

DETROIT TRANSPORTATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006
(Continued)

3) BUDGETARY DATA

Budgeting Policies

The DTC's yearly budget is presented to the City's Budget Department for review and a determination of the annual subsidy for the ongoing operation and maintenance of the DPM.

The DTC meets with the City Budget Department generally during the month of February each year to justify the budget submitted. Shortly thereafter, the Budget Department will inform the DTC on their recommendation for the total subsidy that will be forwarded to the Mayor. Before the budget hearing with the Mayor that is usually conducted in April, the DTC submits additional justification to support the items not approved by the Budget. A date will be set for the City Council budget hearing with the DTC, which usually falls in May. The DTC budget approved by the City Council represents the final allocation for the fiscal year.

The DTC then prepares an Operation and Maintenance Agreement with the Detroit Department of Transportation (DDOT) for the Subsidy Agreement for the fiscal year. The DTC budget is passed through DDOT.

4) BOND REVENUE PASSED THROUGH DDOT

In FY 2003, the City Council approved funds to be paid to DTC through DDOT from the proceeds of the Bonds in the amount not to exceed \$7 million dollars for the automatic train control upgrade project, a capital project of DTC. For the year ended June 30, 2006, \$186,187 was spent on this project, which was recorded as revenue in the financial statements.

**DETROIT TRANSPORTATION CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Current Year Expenditures</u>
U.S. Department of Transportation:		
Passed through the Federal Transit Administration Capital Investment	20.500	\$1,478,291
Extended Service Hours	20.205	670,000
U.S. Department of Homeland Security:		
Passed Through The City of Detroit - Terrorism Training Grant	97.036	<u>8,624</u>
Total Expenditures of Federal Awards		<u><u>\$2,156,915</u></u>

DETROIT TRANSPORTATION CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

1) SIGNIFICANT ACCOUNTING PRINCIPLES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Detroit Transportation Corporation and is presented on the same basis of accounting as the consolidated financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

2) EXPENDITURE REPORTS

Management has reconciled the expenditures reported in the Schedule of Expenditures of Federal Awards to those amounts reported in the annual of final cost reports. Unallowable differences, if any, have been disclosed to the auditor.

REQUIRED SUPPLEMENTARY INFORMATION

**DETROIT TRANSPORTATION CORPORATION
SCHEDULE OF EMPLOYER CONTRIBUTION
YEAR ENDED JUNE 30, 2006**

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF EMPLOYER CONTRIBUTION:

<u>Year Ended June 30</u>	<u>Annual Recommended Contributions</u>	<u>Percentage Contributed</u>
1997	\$133,021	100%
1998	\$147,567	100%
1999	\$148,122	100%
2000	\$160,712	100%
2001	\$168,538	100%
2002	\$210,220	100%
2003	\$347,322	100%
2004	\$326,258	100%
2005	\$365,020	100%
2006	\$279,342	100%

Obligation for Benefits

The following information is the actuarial accrued liability measure computed as part of an actuarial valuation performed as of July 1, 2005 and 2004. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.0% per year, net of investment expenses (b) projected salary increases of 4% per year (c) heavy rates of termination and (d) moderate rates of disablement.

	<u>2006</u>	<u>2005</u>
Pension Benefit Obligation:		
Current Employees		
Employer Financed:		
Vested	\$3,322,436	\$2,899,921
Non-Vested	118,596	150,244
Total Pension Benefit Obligation	<u>3,441,032</u>	<u>3,050,165</u>
Net Assets Available for Benefits	<u>3,872,264</u>	<u>3,580,487</u>
Excess of Net Assets over Benefit Obligation	<u>\$431,232</u>	<u>\$530,322</u>

SUPPLEMENTAL INFORMATION

**Alan C.
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Detroit Transportation Corporation
Detroit, Michigan

We have audited the financial statements of Detroit Transportation Corporation (DTC) as of and for the year ended June 30, 2006 and have issued our report thereon dated January 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered DTC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of DTC in a separate letter dated January 22, 2007.

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards
(Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of DTC, City of Detroit and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young; Assoc.

January 22, 2007

**Alan C.
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Detroit Transportation Corporation
Detroit, Michigan

We have audited the compliance of Detroit Transportation Corporation (DTC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of DTC are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of DTC's management. Our responsibility is to express an opinion on DTC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about DTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on DTC's compliance with those requirements.

In our opinion, DTC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2006-1 to 2006-4.

**Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133
(Continued)**

Internal Control over Compliance

The management of DTC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered DTC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of DTC, City of Detroit and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young; Asst.

January 22, 2007

**DETROIT TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X No
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X No

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes _____ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
20.500	U.S. Department of Transportation, Passed Through Federal Transit Administration, Federal Transit Capital Investment Grant
20.205	U.S. Department of Transportation, Passed Through Federal Transit Administration, Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

See Notes Schedule of Expenditures of Federal Awards.

**DETROIT TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(Continued)**

Section II – Financial Statement Audit Findings

No findings were noted for the year ended June 30, 2006.

**DETROIT TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(Continued)**

Section III – Federal Program Audit Findings (Continued)

2006-1

Program Name – Federal Transit Capital Investment Grant

CFDA Number – 20.500

Finding Type – Noncompliance.

Criteria – Federal Transit Capital Investment Grant recipients are required to file DBE reports semi annually and Financial Status Reports each quarter, within 30 days of the end of period.

Condition – Detroit Transportation Corporation did not file Financial Status Reports and Milestone Progress Report for two quarters and for the remaining two quarters, reports were filed late. Further, Detroit Transportation Corporation did not file any DBE reports.

Questioned Costs – None

Cause/Effect – Lack of timely submission of reports could impact the timing and collectibility of payment.

Recommendation – We recommend that the Detroit Transport Corporation ensures that it complies with the reporting requirements.

View of Responsible Officials – DTC has assured FTA it will file Milestone Progress Reports (MPR) and Financial Status Reports (FSR) timely. DTC has filed the required reports timely for the past two quarters. DTC has assured the FTA it will file DBE reports timely. Prior DBE reports were filed, but not timely.

The FTA has closed out this finding in the Triennial Review follow up dated January 18, 2007.

**DETROIT TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(Continued)**

Section III – Federal Program Audit Findings (Continued)

2006-2

Program Name – Federal Transit Capital Investment Grant

CFDA Number – 20.500

Finding Type – Noncompliance.

Criteria – Federal Transit Capital Investment Grant recipients are required to comply with the FTA requirements with respect to real property, equipment and supplies financed by the Grant Agreement.

Condition – Detroit Transportation Corporation did not maintain fixed assets inventory records that easily distinguish between FTA funded and non FTA Funded assets. Further in case of disposition of property, Detroit Transportation Corporation could not provide documentation that they complied with the maintenance, notification and other disposition of property requirements of FTA.

Questioned Costs – None

Cause/Effect – Due to non availability of documentation, it cannot be verified if Detroit Transportation Corporation complied the notification requirements and other disposition of property requirements of FTA.

Recommendation – We recommend that the Detroit Transport Corporation ensures that it complies with FTA Real Property, Equipment and Supplies requirements.

View of Responsible Officials – DTC has updated its fixed asset inventory by segregating FTA funded and non-FTA funded assets in the inventory management software. DTC has assured the FTA it will comply with FTA requirements regarding the disposition of assets acquired in whole or part by federal funds. It will request permission to dispose of assets as required, hold proceeds of disposition in a separate fund, and expend the funds to reduce costs of future FTA funded capital projects.

The FTA has closed out this finding in the Triennial Review follow up dated January 18, 2007.

**DETROIT TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(Continued)**

Section III – Federal Program Audit Findings (Continued)

2006-3

Program Name – Federal Transit Capital Investment Grant, National Highway and Planning

CFDA Number – 20.500, 20.205

Finding Type – Noncompliance.

Criteria – The federal financial assistance grantee must ensure that federally supported transit service and related benefits are distributed in an equitable manner as per FTA Title VI requirements.

Condition – Detroit Transportation Corporation has not conducted an assessment of the needs of persons with limited English proficiency to determine if these individuals have meaningful access to DTC's transit services.

Questioned Costs – None

Cause/Effect – Non compliance of Title VI requirements could impact the timing and collectibility of payment.

Recommendation – We recommend that the Detroit Transport Corporation ensures that it complies with FTA Title VI requirements.

View of Responsible Officials – DTC has developed a plan to assess the needs of LEP persons, and indicated based on the assessment, it will provide information in languages other than English. The FTA has accepted this plan.

The FTA has closed out this finding in the Triennial Review follow up dated January 18, 2007.

**DETROIT TRANSPORTATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(Continued)**

Section III – Federal Program Audit Findings (Continued)

2006-4

Program Name – Federal Transit Capital Investment Grant, National Highway and Planning

CFDA Number – 20.500, 20.205

Finding Type – Noncompliance.

Criteria – The federal financial assistance grantees are required to maintain a drug – free workplace for all employees and to have an ongoing drug-free awareness program.

Condition – Detroit Transportation Corporation could not provide documentation that they complied with the Drug and alcohol program requirements, in case, where the maintenance work was contracted to outside contractors.

Questioned Costs – None

Cause/Effect – Non compliance of Drug and alcohol program requirements could impact the timing and collectibility of payment.

Recommendation – We recommend that the Detroit Transport Corporation ensures that it complies with Drug and alcohol program requirements.

View of Responsible Officials – DTC does have and has had an FTA approved drug and alcohol testing program in place for safety-sensitive DTC employees. The FTA noted there was no program in place for safety-sensitive employees of contractors who perform ongoing work on our system. DTC submitted to FTA and received approval to implement a program to provide drug and alcohol testing to contractors' safety-sensitive employees who perform ongoing work on our property. DTC implemented this program at the end of November 2006.

The FTA has closed out this finding in the Triennial Review follow up dated January 18, 2007.

**DETROIT TRANSPORTATION CORPORATION
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2006**

PRIOR YEAR FINDINGS

There were no Federal Program Audit Findings last year.

OTHER SUPPLEMENTAL INFORMATION

**DETROIT TRANSPORTATION CORPORATION
OPERATING REVENUES
YEAR ENDED JUNE 30, 2006**

SCHEDULE 1

<u>Operating Revenues</u>	<u>Amount</u>
Faregate Revenue	\$290,279
Pass Sales	76,172
Token Sales	<u>625,363</u>
Total Passenger Revenue	991,814
Local Operating Grants:	
City Subsidy	7,896,198
State Assistance Grant	<u>3,858,853</u>
Total Local Operating Grant	<u>11,755,051</u>
Total Operating Revenues	<u>\$12,746,865</u>

DETROIT TRANSPORTATION CORPORATION
OPERATING EXPENSES
YEAR ENDED JUNE 30, 2006

SCHEDULE 2

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor				
Operators' Salaries & Wages (Controls)	\$880,836	\$0	\$0	\$880,836
Other Salaries & Wages	1,057,735	1,720,707	925,557	3,703,999
Dispatchers' Salaries & Wages	0	0	0	0
Fringe Benefits				0
Other Fringe Benefits	564,026	467,231	420,182	1,451,439
Pensions	0	0	298,981	298,981
Services				
Advertising Fees	0	0	285,465	285,465
Audit Costs	0	0	36,552	36,552
Other Services	557	2,206,662	992,776	3,199,995
Materials & Supplies Consumed				
Fuel & Lubricants	0	0	0	0
Tires & Tubes	0	0	0	0
Other Materials & Supplies	74,231	499,167	170,755	744,153
Utilities	391,752	188,553	46,365	626,670
Casualty & Liability Costs				
Public Liability Insurance	431,966	0	148,101	580,067
Other Insurance	0	0	248,477	248,477
Taxes	0	0	0	0
Purchased Transportation Services	0	0	0	0
Miscellaneous Expenses				
Travel & Meetings	10,419	71,009	26,362	107,790
Association Dues & Subscription			23,771	23,771
Other Miscellaneous Expenses	8,171	21,670	79,051	108,892
Interest Expense				
Interest on Long-Term Debt	0	0	0	0
Interest on Working Capital Needs	0	0	0	0
Lease & Rentals	7,325	17,570	158,444	183,339
Depreciation	0	0	8,185,928	8,185,928
TOTAL EXPENSES	<u>\$3,427,018</u>	<u>\$5,192,569</u>	<u>\$12,046,767</u>	<u>\$20,666,354</u>

**DETROIT TRANSPORTATION CORPORATION
NON-OPERATING REVENUES
YEAR ENDED JUNE 30, 2005**

SCHEDULE 3

	<u>Amount</u>
Federal Non-Operating Grants	
Homeland Security Grant	\$8,624
FTA Grant	<u>2,148,291</u>
Subtotal Federal Non Operating Grants	<u>2,156,915</u>
 Local Non-Operating Grants	
City Bond Revenue	<u>186,187</u>
Subtotal Local Non Operating Grants	<u>186,187</u>
 Other Non-Operating revenue	
Interest Income	331,326
Rental Income	21,300
Misc. Revenue	14,029
Unrealized Gain on Investment	(496,077)
Advertising Income	417,953
Gain / (Loss) on sale of Assets	<u>(6,685)</u>
Subtotal other Non Operating Grants	<u>281,846</u>
 Total Non-Operating Revenues	<u><u>\$2,624,948</u></u>

**DETROIT TRANSPORTATION CORPORATION
MAXIMUM REIMBURSEMENT COMPUTATIONS
OF LOCAL TRANSIT OPERATING ASSISTANCE
YEAR ENDED JUNE 30, 2006**

SCHEDULE 4

	<u>Amount</u>
Expenses	
Labor	\$4,584,835
Fringe Benefits	1,750,420
Services	4,266,164
Utilities	626,670
Casualty & Liability costs	828,545
Leases & Rentals	183,339
Other Expenses	240,453
Depreciation	8,185,928
Total Expenses	<u>20,666,354</u>
Less Ineligible Expenses	
Advertising	158,200
FTA Grant Revenue	670,000
Homeland Security Grant	8,624
Depreciation	8,185,928
Total Ineligible Expenses	<u>9,022,752</u>
Eligible for Transit Operating Assistance	11,643,602
Reimbursement percentage	<u>33.1414</u>
Transit Operating Assistance	<u><u>\$3,858,853</u></u>

**DETROIT TRANSPORTATION CORPORATION
MILAGE DATA (UNAUDITED)
YEAR ENDED JUNE 30, 2006**

SCHEDULE 5

	Public Transportation Mileage	Charter School Bus Mileage	New Services
	<u> </u>	<u> </u>	<u> </u>
Line Haul *			
First Quarter	148,416	0	0
Second Quarter	137,720	0	0
Third Quarter	148,153	0	0
Fourth Quarter	172,228	0	0
Total Line Haul	<u>606,517</u>	<u>0</u>	<u>0</u>
Demand Response			
First Quarter	0	0	0
Second Quarter	0	0	0
Third Quarter	0	0	0
Fourth Quarter	0	0	0
Total	<u>0</u>	<u>0</u>	<u>0</u>
Total Operation	<u><u>606,517</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

* - Line Haul represents Automatic Guideway

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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January 22, 2007

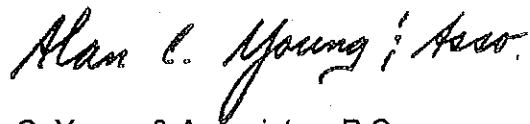
To the Board of Directors of
Detroit Transportation Corporation
Detroit, Michigan

In planning and performing our audit of the basic financial statements of the Detroit Transportation Corporation (DTC) for the year ended June 30, 2006, we considered the DTC's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. Exhibit A, which accompanies this letter, summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 22, 2007 on the financial statements of the DTC.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with DTC's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Alan C. Young & Associates, P.C.
Certified Public Accountants

1) UNRECONCILED ACCOUNTS

Condition - During our audit, we noted that account balances for accounts receivable and deferred revenue were not reconciled. This increased the time needed for the audit.

Recommendation - We recommend that the Corporation reconcile these accounts on a regular basis, and maintain proper supporting documentation for account balances.

2) NEW AUDITING STANDARDS

Condition - Recently 10 new auditing standards have been released and will become effective over the next two fiscal years. In reviewing the new standards, we do not believe, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Corporation beginning with the year ending June 30, 2007.

One of the new standards revises the dating of the auditors report. Under the old standards, the auditors' report was dated the last day of field work. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Corporation could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work needed to complete our subsequent events work.

Another standard effective for the June 30, 2007 year end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies, "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client's inability to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Corporation. We will have to evaluate the Corporation's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists. The AICPA has issued eight statements commonly referred to as the Risk Assessment Standards to improve the quality and effectiveness of audits. The new standards will result in an overall increased work effort by the auditors as they require auditors to obtain a more in-depth understanding of the Corporation's operations and control environment and a more rigorous assessment of the risk of material misstatement of the financial statements.

Recommendation - We recommend that the management review the new pronouncements to determine changes necessary to ensure that the Corporation is in compliance with the applicable financial statements and footnote disclosure.